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2. a. The notable examples of PC's exercising special latitude are West Germany and Portugal.

(1) West Germany.

(a) West Germany exercises special latitude in terms of exports to Soviet-occupied East Germany in these respects:

(i) Items under quantitative control are exported to East Germany without reference to global quotas or to control procedures established by COCOM.

(ii) West Germany does not supply statistics to COCOM concerning the delivery of strategic commodities in interzonal trade and does not notify nor does it consult COCOM with respect to interzonal trade agreements.

(b) The West Germans have defended this special latitude on the political grounds that East Germany should be regarded as part of Germany. It follows that the West Germans feel that they must consider interzonal trade not international but internal trade, and look at the East German economy in terms of eventual reintegration with their own.

(2) Portugal. The Portuguese government permits exports from and/or through Macao of China-embargoed goods of types and in quantities falling outside of CHINCOM policies and procedures regarding exceptions for Communist China. The Portuguese argue that discontinuance of current practice would cause a real military threat to Macao by the Chinese Communists or refusal by the Chinese Communists to ship to Macao the goods on which Macao's existence depends.

b. Consideration might well also be given, in this fundamental review of our economic defense program, to the possibility (perhaps real, perhaps

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to note the ways in which the control arrangements and systems of non-aid-recipient non-PC's differ from those of other countries. In terms of this discussion, the notable non-aid-recipient non-PC's are Sweden, Switzerland, Austria, and Finland.

a. Sweden and Switzerland, as major "neutrals" and non-aid-recipients, are careful to avoid identification with any activity directed against the Soviet bloc. Nevertheless, from the inception of COCOM until the present time, both countries have cooperated, on a most informal and confidential basis, by effecting generally parallel restrictions safeguarding against frustration of COCOM controls. Early in 1955, however, Switzerland informed the U.S. that she would hereafter restrict her exports only to the level of a base period, i.e., to a "normal" pattern, so as to refrain from taking traditional business of the PC's. Sweden's cooperation remains unchanged, the only problem having been exceptions for COCOM-embargoed bearings, which have not in fact involved greater latitude than have bearings exceptions for Italy, a COCOM member. With respect to Switzerland, it is not yet clear that her "return to normalcy" will in fact result in a substantially greater volume of exports than there has been.

b. The recent treaty restoring Austria to the sovereign status she had prior to World War II places Austria in a formal position of neutrality akin to that of Switzerland and Sweden insofar as relations with both the West and the Soviet world are concerned. One of the articles in the treaty provides specifically that Austria will not show preferential consideration to any country or countries in the conduct of her trade relations. Moreover, under

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serious concern in terms of frustration of COCOM controls, or of contribution to the Soviet bloc war potential. With respect to ships, however, the U. S. has considered exports significant enough to warrant vigorous approaches to the Finns.

d. Thus, we see that in the cases of Sweden and Switzerland, the basic defense of special latitude is their neutral position and the fact that their people expect them to permit exports in a way consistent with the neutral positions of their governments. Economic pressures, undeniably important as they are, are not so serious that they could not be surmounted were it not for the political atmospheres and courses of these countries. The Austrian and Finnish positions with respect to Western trade controls are necessary consequences of their basic relationship with the USSR.

3. a. There is one country, Ceylon, to which U.S. aid has not been extended because of inadequate cooperation under the Battle Act. Although avowedly anti-Communist, as strongly reflected at the recent Bandung Conference, in 1952 Ceylon signed a five-year contract to ship 50,000 tons of rubber to China annually in return for 270,000 tons of rice annually. Because the major rubber-producing countries embargo rubber to China under the U. N. Resolution, Ceylon has been considered ineligible for aid. Ceylon is not a member of the U. N., having been blackballed by the Soviet Union, but this has not, in the eyes of the U.S., modified the requirements of the Battle Act in terms of the problem of extending aid to Ceylon.

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b. Ceylonese shipments of rubber to Communist China may be said in effect to reflect a mathematical exercise: the calculation that Ceylonese profit would exceed the maximum amount of aid the U.S. might be expected to offer. Political considerations were involved only in the sense that the Ceylonese saw no political arguments, in either the domestic or the international realm, outweighing the economic advantage involved.

D. Injurious effects of special latitude. The conditions under which special latitude has arisen and the arguments offered in defense or justification of special latitude have been described above. The injurious effects of special latitude may be summarized as follows: First, and most obvious, one injurious effect of special latitude such as that described or, in the case of Japan, hypothesized, above, is that it mitigates, and has the potential of completely frustrating, the effects of various controls exercised by other countries. Second, the existence of areas of special latitude makes it more difficult to negotiate the adoption or maintenance of strict controls on the part of other countries. Third, the exercise of special latitude by any country may lead others to desire corresponding latitude with respect to certain commodities or destinations. Fourth, the exercise of special latitude connotes, or may by other countries be construed to connote, a more relaxed assessment of the importance of security trade controls than the system is founded upon and may therefore lead to a general diminution of interest in the control system, or, fifth, could lead to a more relaxed posture vis-a-vis the European bloc and/or Communist China in other fields as well.

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E. Criteria for special latitude? Special latitude is theoretically inadmissible in a multilateral control system, in the sense/it means operating beyond the bounds of multilateral agreement. Some attention might conceivably be given to the possibility of developing agreed criteria, or/special circumstances, under which individual PC's would be free to exercise greater latitude than international agreements permit. Difficulties so serious as to make the attempt fruitless would, however, be encountered. In the first place, the circumstances or considerations involved do not lend themselves to measurement or clear definition, falling as they do in the realm of long-range political, economic, and security problems. Secondly (and partly for the above reason), multilateral agreement on criteria could be reached only under terms so broad as to enable any government to make a case for special latitude should it desire to do so.

A practical consideration for the Executive Branch of the U.S. Government is that the Battle Act is predicated on uniform cooperation, and to achieve revision of the Act in such a way as to recognize special latitude would be a formidable, perhaps impossible, task. Under the Battle Act (Title I), the President may direct the continuation of aid even in the event of "knowingly permitted" shipment by a foreign country of items included on the Battle Act embargo list (unless the country knowingly permits the shipment of arms, ammunition, and implements of war, i.e. Title I, Category A goods) on the grounds that termination of aid would clearly be detrimental to U.S. security interests, but this provision was intended to allow for over-all consideration of U.S. security interests after the fact of shipment; it was by no means intended to

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or predominantly to certain Free World countries, or, rather than distributing COCOM quotas among the PC's, assigning each global quota to that COCOM country which most warrants it on the basis of its historical production and export pattern. The possible advantages conceived of for such a system would be that it would, by preventing competition among PC's for Soviet bloc business, reduce the flow of strategic goods to the Soviet bloc. Always, however, this possibility has been discarded at an early stage of consideration on the grounds that, aside from the difficulty which would be found in erecting such a system, it would create or accentuate economic rigidities in Free World economies, and would engender excessive reliance on imports from the Soviet bloc, in which situations the Soviet bloc could easily cause serious disturbance to Free World economies.

G. Conclusions. The pragmatic answer to our question would seem to be that special latitude can "be allowed" under special circumstances because it has existed in certain situations without critical injury or danger to the objectives and philosophy of the multilateral control system.

A further question should, however, be considered, i.e. whether special latitude should "be allowed". In answering this question, we interpret "be allowed" to mean "be condoned" in order to avoid having to answer the question what kind of action "not allowing" may involve, which is the subject of another Staff Study (that on inducements and pressures).

The proper answer seems to be that special latitude can never be condoned in terms of the U.S. concept of the objectives of the control system, but that there are circumstances in which the U.S. must accept or even concur

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in action that is injurious to the control system on the basis of economic or political considerations overriding the actual or potential injury to the control system. We are working, even in the CG structure, under an informal system of cooperation, with nations whose attitudes and problems differ from our own and also from each other's. In order to make the control system as effective as possible, it should constantly be our objective to eliminate special latitude, but our action toward this objective, or whether we take action toward this objective at any given time, should be decided on an ad hoc basis after full evaluation of such considerations as the nature and intensity of resistance of the country concerned, the extent to which other countries are willing to join us in opposing special latitude, and the economic and political facts, implications, and exigencies of the situation.

We have a right to expect more of PC's and of aid-recipient non-PC's than of non-aid-recipient non-PC's. With respect to the latter, we and all other COCOM nations have a right to press for cooperative action, but the compulsion to recognize their different status. Obviously our attitude toward non-PC's may be conditioned by any developments in our attitude with regard to the desirability of a "neutral bloc" between Western Europe and the European Soviet bloc.

With this general answer in mind, we offer these brief comments on the cases of special latitude cited above:

1. In the case of West Germany, as we have seen, the basic motivation is political. In the U.S. view the desirability of seeing West Germany in a position of participation in Western world leadership decidedly overrides the

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political importance of having West Germany seek to maintain a facade of a single Germany in terms of the ultimate objective of unification or in terms of alleviating domestic political pressures in West Germany. Therefore we believe the U.S. should work as actively as possible without jeopardizing good relationships with Germany to eliminate West Germany's exercise of special latitude.

2. With respect to Portugal, although we doubt the possibility of economic/retaliation by China if Macao shipments cease, no objective answer to the question whether the Communist Chinese would retaliate -- economically or militarily -- can be given, and the Portuguese may very well be right. Secondly, goods moving from or through Macao to Communist China, when considered in relationship to the goods denied Communist China by the Free World controls, do not constitute a serious danger to Free World security. Therefore, although we should continue our attempts to eliminate Portuguese special latitude, our efforts in this direction should not be strenuous ones unless the psychological danger Portuguese special latitude presents to maintenance of strict Free World controls to China becomes acute and a high-level decision is made that the maintenance of such controls overrides all other factors.

3. With respect to the hypothetical possibility of Japanese special latitude in terms of exports to Communist China, the situation is different from that which involves Macao. Japan is a large and industrialized country which does not depend on trade with Communist China for its existence as does the small unindustrialized Macao. More important, the kind of special latitude in which Japan might be interested would not be a limited quantity of exception

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items, such as are involved with Macao, for this would not appreciably alleviate Japan's economic or political problem, and what we would be concerned with would be a large flow of strategic goods to Communist China. Not only would this make a substantial contribution to Chinese war potential, but it would modify out of all recognition the posture the U.S. wishes to see the Free World maintain with respect to Communist China as an unrepentant aggressor and a continuing threat to the peace and stability of the Far East.

4. With respect to Sweden, Switzerland, Austria, and Finland, it would seem that the U.S. has every right to hope for, but little right to demand (although, in the case of Switzerland, some right to expect), more effective cooperation than we are now receiving, and that the prospect of achieving more effective cooperation lies more in the field of offering inducements than in pressures or in simple persuasion on the basis of arguments used time and time again. Should the U.S. move in the direction of favoring a "neutral bloc", a high-level decision would have to be made as to whether and to what extent strategic exports by neutrals to the Soviet bloc should be considered simply one of the inevitable costs of such a bloc, taking into account also the effect of such exports on maintenance of the existing multilateral control system.

5. It should be our ultimate objective to eliminate shipments of rubber to Communist China from Ceylon, as from all sources. However, our immediate course of action toward that goal should be conditioned by these considerations:

a. Rubber is recognized by the COCOM countries as only of "surveillance" importance (International List III) in terms of exports to the Soviet bloc in Europe.

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b. Rubber is on the Title II List of the Battle Act rather than the Title I List, so that adequate cooperation even in terms of exports to Communist China need not require embargo.

c. In order to achieve the desirable over-all U.S. relationship with the Southeast Asian rubber-producing countries, allowance ought to be made for shipments of rubber to Communist China so long as they do not contribute excessively to Soviet bloc military capabilities -- specifically, so long as they do not permit Communist bloc stockpiling.

In terms of these considerations, Ceylonese shipments could be considered as not involving special latitude, and therefore defensible, if they were reduced to a level consistent with what other countries were permitted to ship within a "global quota" low enough to prevent Communist bloc stockpiling.

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